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Message Text

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17
ACTION XMB-07

INFO OCT-01 EUR-25 EA-11 ISO-00 AEC-11 AID-20 CEA-02

CIAE-00 CIEP-02 COME-00 DODE-00 EB-11 FEA-02 FPC-01

H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07

RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 PA-04

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TO SECSTATE WASHDC 2242
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C O N F I D E N T I A L TOKYO 7079

E.O. 11652 GDS
TAGS: ENRG, JA, UR
SUBJ: U.S. PARTICIPATION IN SAKHALIN OIL EXPLORATION PROJECT

REF: TOKYO 6504 B. TOKYO 5831

SUMMARY: BOTH JAPANESE FONOFF AND SOVIETS APPEAR TO BE CONCERNED BY GULF STATEMENT THAT IT CANNOT FULLY PARTICIPATE WITH JAPAN IN SAKHALIN OIL AND GAS EXPLORATION PROJECT. FONOFF HAS RECOMMENDED THAT JAPAN-USSR MEMORANDUM ON PROJECT BE RENEGOTIATED AND SOVIET MINISTRY OF FOREIGN TRADE OFFICIAL HAS DISCUSSED MATTER DIRECTLY WITH GULF. THERE STILL MAY BE CHANCE THAT GULF WILL PARTICIPATE ON RISK BASIS WITH JAPAN IN SAKHALIN PROJECT. END SUMMARY.
1. IN NUMBER OF RECENT CONVERSATIONS, IT HAS BECOME EVIDENT THAT GULF OIL MAY STILL PARTICIPATE ON A RISK BASIS WITH JAPANESE IN COOPERATIVE EXPLORATION OF CONTINENTAL SHELF OF SAKHALIN ISLAND. GULF HAD PREVIOUSLY NOTIFIED JAPANESE THAT MAXIMUM RATE OF RETURN ON CAPITAL TO BE INVESTED IN THIS PROJECT WAS NOT SUFFICENT TO JUSTIFY RISK INVOLVED IN ITS PARTICIPATION.
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2. FOLLOWING POSITIONS BY THREE SIDES INVOLVED IN MEGOTIATIONS SUPPORT CONCLUSION THAT GULF MAY YET BE ABLE TO PARTICIPATE ON RISK BASIS:

A) FONOFF POSITION. JAPANESE FONOFF WAS NOT SATISFIED WITH MEMORANDUM RECENTLY CONCLUDED BETWEEN JAPANESE AND SOVIET SIDES (SEE REFTEL B) AND HAS INFORMED MITI AND THE JAPAN PETROLEUM DEVELOPMENT CORP. THAT IT WOULD LIKE TO SEE MEMORANDUM RENEGOTIATED, PARTICULARLY PARTS RELATING TO BONUS (PROFIT) AND PRICE. FONOFF SOURCE NOTED THAT FONOFF COULD ONLY GIVE ADVICE NOT DIRECTION TO PARTIES INVOLVED IN NEGOTIATIONS WITH SOVIETS, BUT MADE IT CLEAR THAT THAT ADVICE HAS BEEN THAT PARTICIPATION BY U.S. FIRM ON FINANCIAL AS WELL AS TECHNICAL BASIS SHOULD BE ASSURED.

B) SOVIET POSITION. SOVEIT TRADE REPRESENTATIVE RUBEN PETRODIAN TOLD EMBOFFS MAY 28 THAT HE UNPLEASANTLY SURPRISED BY GULF NOTIFICATION TO JAPANESE. SOVIET SIDE,, HE SAID, HAD ASSUMED THAT JAPAN HAD COORDINATED ITS POSITION WITH GULF DURING RECENT NEGOTIATIONS ON SAKHALIN PROJECT, AND HAD BELEIVED WHEN MEMORANDUM SIGNED THAT IT ACCEPTABLE TO GULF AS WELL AS TO JAPANESE. PETROSAIN ADDED THAT MUCH OF EQUIPMENT AND TECHNOLOGY FOR PROJECT WOULD HAVE TO COME FROM US AND FOR THIS REASON GULF PARTICIPATION DESIRABEL FROM USSR POINT OF VIEW. PETROSIAN ALSO SAID THT SUSHKOV, CHIEF OF FOREIGN TRADE MINISTRY'S MAIN ADMINISTRATION FOR IMPORT OF MACHINERY AND EQUIPMENT FROM CAPITALIST COUNTRIES, WAS IN THE U.S. AND PLANNED TO CONSULT WITH GULF OFFICERS IN PITTSBURG TO DETERMINE QTE WHAT IT WOULD TAKE TO GET GULF PARTICIPATION UNQTE. EMBASSY LEARNED FROM GULF EXECUTIVE M. HILL, EMPHASIZING THAT IT WOULD LIKE TO SEE GULF PARTICIPATION WITH JAPAN IN PROJECT COVERING NE AND SW QUADRANTS OF SAKHALIN ISLAND, AND WAS SERIOUSLY CONSIDERING GULF'S INDEPENDENT PROPOSAL FOR EXPLORATION RIGHTS ON NW AND SE QUADRANTS OF SAKHALIN CONTINTEL SHELF.

C) GULF POSITION. GULF OBVIOUSLY HOPES THAT FONOFF
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AND SOVIET POSITIONS WILL LEAD TO RENEGOTIATIONS OF MEMORANDUM SO THAT GULF CAN PARTICIPATE ON PROFITABLE BASIS. HOWEVER, GULF SOURCES HAVE TOLD US ON CONFIDENTIAL BASIS THAT UNDER CERTAIN CIRCUMSTANCES GULF MIGHT BE ABLE TO PARTICIPATE ON RISK BASIS EVEN IF MEMO UNCHANGED. IF RPT IF GULF OBTAINS CONCESSION RIGHTS TO OTHER AREAS OF SAKHALIN SHELF ON ITS OWN, GULF MIGHT BE WILLING TO PUT UP SHARE OF CAPITAL (PROBABLY ABOUT 15 PERCENT)

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IN RETURN FOR JAPANESE INVESTMENT OF AN EQUIVALENT
AMOUNT OF MONEY IN GULF PROJECT.
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